Pepsi-Cola Company Annual Report

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BOARD OF DIRECTORS

Charles Allen, Jr. *Senior Partner, Allen & Company, Investment Bankers*
Herbert L. Barnet *Chairman of the Board of the Company*
Sheldon R. Coons *Business Consultant*
Thomas Elmezzi *Executive Vice-President of the Company*
James Felt *Consultant, Morningside Heights, Inc.*
Harry E. Gould *Chairman of the Board, Universal American Corporation*
Christopher E. Holzworth *Business Consultant*
Donald M. Kendall *President of the Company*
Milward W. Martin *Senior Vice-President of the Company*
Don G. Mitchell *Chairman of the Board, General Time Corporation*
Dr. Louis A. Rezzonico *Industrialist*
Joan Crawford Steele *Motion Pictures, Television and Public Relations*
George C. Textor *President, The Marine Midland Trust Company of New York*

OFFICERS

Herbert L. Barnet *Chairman of the Board*
Donald M. Kendall *President and Chief Executive Officer*
Thomas Elmezzi *Executive Vice President*
Harold E. Rome *Secretary*
John R. Allison *Treasurer*

VICE PRESIDENTS

Robert J. Abernethy *Technical Services*
Charles N. Baker *General Sales Manager (U.S.)*
John L. Bate *Area Manager, North Pacific Division*
D. Mitchell Cox *Public Relations*
Robert V. Cox *Assistant General Sales Manager (U.S.)*
Charles C. Davis, Jr. *Franchise Development*
Peter J. De Luca *Counsel (Head of Law Department)*
Samuel H. Desch *General Manager, International Division*
Stephen J. Gullo *Engineering & Quality Control (U.S.)*
Norman C. Heller *Market Research*
Philip B. Hinerfeld *Advertising*
Adolph Krieger, Jr. *Controller*
Milward W. Martin *Senior Vice President*
William C. Munro *Planning Operations*
Henry E. McGovern *Vending*
Frank W. McIntosh *Area Manager, International Division*
Louis E. Nufer *Mergers & Acquisitions*
Alan M. Pottasch *Marketing Services*
John E. Repko, Jr. *Eastern Area Manager*
Robert K. Rogers *Assistant General Sales Manager*
Harvey C. Russell *Special Markets*
Herman A. Schaefer *Finance*
Stephen A. Schoff *Personnel*
Frederick C. Sorensen *The Tip Corporation of America*
A. Allen Thomson *Sugar*
John A. Toigo *Planning*
Peter K. Warren *Marketing & Operations*
Melford G. Wolfe *Field Services*

Vincent M. Burke *Assistant Treasurer*
James W. Robertson *Assistant Secretary*

James B. Somerall *President, Pepsi-Cola Metropolitan Bottling Company, Inc.*

EXECUTIVE OFFICES

500 Park Avenue, New York, N.Y. 10022

FIELD SERVICE OFFICES

Domestic

EASTERN DIVISION: John E. Repko, Jr. (New York)
New York: William E. Murray
Washington: William A. McDowell

SOUTHERN DIVISION: James Mangold (Atlanta)
Atlanta: Paul Ryals
Dallas: Robert Morgan

CENTRAL DIVISION: Theodore Mayer (Chicago)
Chicago: David Mathis, Wallace Henry

WESTERN DIVISION: John Warner (San Francisco)
San Francisco: Allen Smith
Denver: Harrison Posner

Overseas

LATIN AMERICA: Anthony D. Rump, *Area Manager*
PAN-AMERICAN DIVISION: David R. Clay (Mexico City)
Panama: Pedro Soberanis
SOUTH AMERICAN DIVISION: Richard I. Ahern (Buenos Aires)
Santiago: Aquilino Garcia
Buenos Aires: Rodolfo Klemenciewicz
Montevideo: Saverio Giancotti
BRAZIL DIVISION: Robert M. Geddes (Rio de Janeiro)
CARIBBEAN DIVISION: Ernesto de Zaldo, Jr. (Caracas)
San Juan: Lincoln P. Ginieres
Bogota: Kenton K. Watson
Lima: John Culver
CANADA-EUROPE-MIDDLE EAST-AFRICA: Frank W. McIntosh, *Area Manager*
Canada: William E. Emerson
Halifax: Gerry Riva
Montreal: Roland Harvey
Toronto: Albert MacDonald
Calgary: Alan Standing
WESTERN EUROPEAN/MEDITERRANEAN DIVISION: A. J. Costa (Rome)
Madrid: Alberto Garrabe
Milan: Guido Stupazzoni
Paris: Jacques Crenon
Lagos: Peter Belke
CENTRAL EUROPEAN DIVISION: V. N. Podlesski (Frankfort)
Frankfort: Helmut Dorn
NORTHERN EUROPEAN DIVISION: J. L. Leech (London)
MIDDLE EAST DIVISION: Kadry Mahmoud (Beirut)
Teheran: John C. Johnson
Nairobi: Alec N. Stephens
SOUTH AFRICAN DIVISION: Peter H. Cheadle (Johannesburg)
FAR EAST: Theodore N. Michel, *Area Manager*
Sydney: Fred T. Kovaleski
NORTH PACIFIC DIVISION: John L. Bate (Tokyo)
Japan: George A. Anadale
Tokyo: Herbert Brill
Osaka: John D. Foulds
Maebashi: Harry D. Pratt
PHILIPPINES DIVISION: William L. Moran (Manila)
Hong Kong: Conway Chau

ANNUAL MEETING

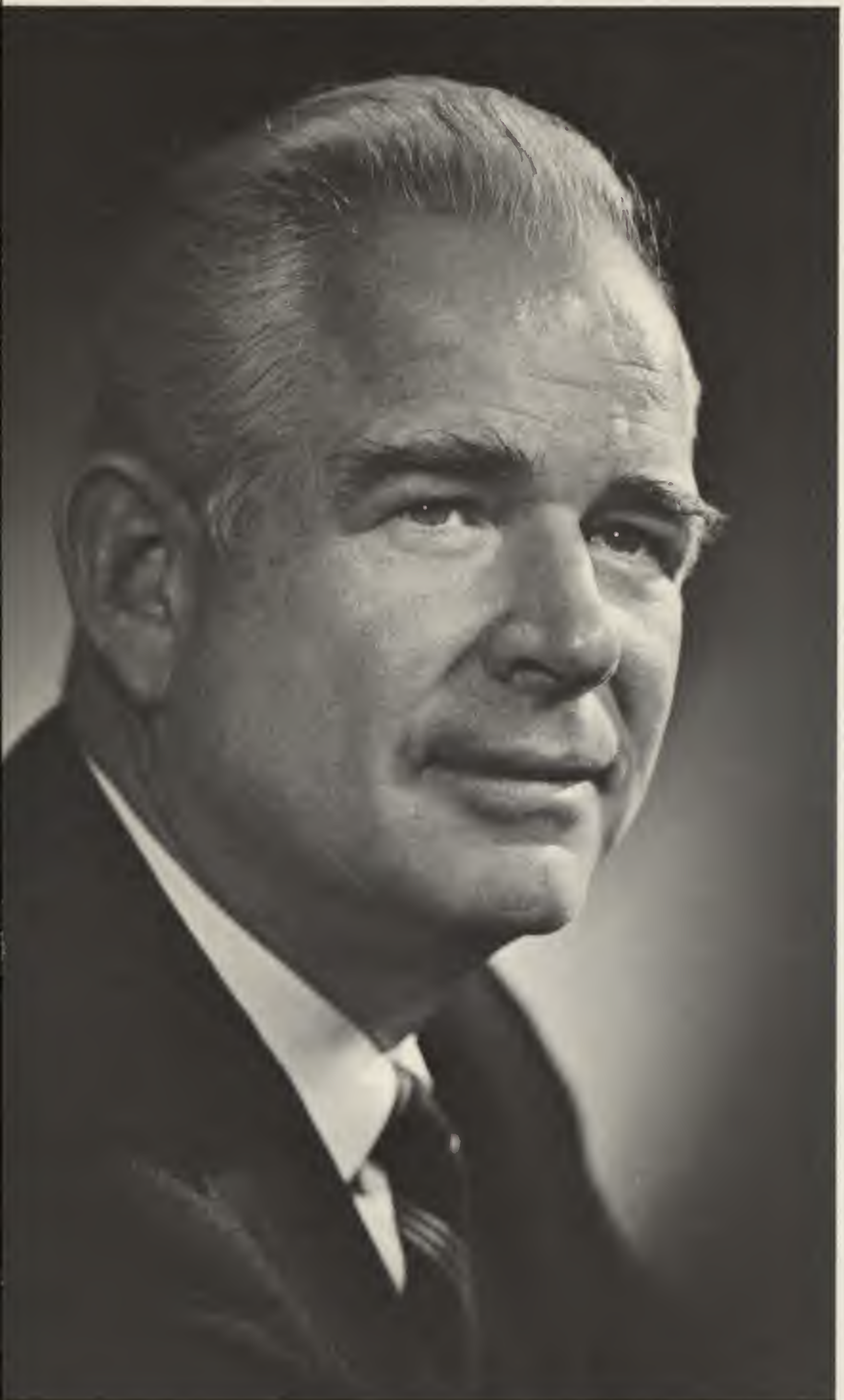
The Annual Meeting of our Stockholders will be held at the Company's home office at 100 West Tenth Street in Wilmington, Delaware, at 2:00 P.M. (E.D.T.), Tuesday, June 8, 1965.

TRANSFER AGENTS

The Marine Midland Trust Company of New York
The First National Bank of Jersey City
Harris Trust and Savings Bank (Chicago, Illinois)

REGISTRARS

The Chase Manhattan Bank, New York City
The First National Bank of Chicago



KARSH OF OTTAWA

TO THE STOCKHOLDERS OF PEPSI-COLA COMPANY:

In 1964, the first full year of operation under your Company's new management, our consolidated sales and earnings rose to the highest levels in our history. Net earnings after taxes and adjustment for foreign activities were $18,577,017 or $2.80 per share of stock outstanding on December 31, 1964, compared with $16,145,500 or $2.46 per share reported for 1963, the previous record. Most significantly, during the final quarter of the year, both sales and earnings rose sharply; we entered 1965 with sales at the highest annual rate in history.

This acceleration has been brought about by new management, new products, new programs, and a closer liaison with Pepsi Bottlers.

During the year we introduced a broad range of new programs whose full effect will be felt only in the months ahead.

We developed and introduced a new product—Diet Pepsi-Cola. We purchased a product—Mountain Dew. We began construction of a new sugar refinery—Empire State Sugar Company, Inc.

We re-established the aggressive spirit of Bottlers and with it accelerated their rate of investment. We organized an equipment leasing company, introduced an equipment incentive plan, and stimulated the placing of vending machines to a 50 per cent increase over the preceding year. Overseas, 26 new bottling plants opened in 14 countries, two of them—Tahiti and Turkey—new to Pepsi. We constructed a management team of high achievement and capacity.

For these and other reasons indicated herein, we have intelligent cause to view both 1965 and the long future with optimism.

The following pages detail your new management's progress in 1964.

Sincerely yours,

Donald M. Kendall

President and Chief Executive Officer

SPECIAL NOTICE

On February 25 we announced publicly that a plan and agreement for the ''marriage'' of Pepsi-Cola Company and Frito-Lay, Inc.—a Dallas-based company engaged in the manufacture and distribution of snack or convenience foods, including corn chips and potato chips, whose primary brands are Fritos and Lay's—had been approved by the Boards of Directors of the two companies for submission to their stockholders. The proxy statement for the annual stockholders' meeting to be held June 8, 1965, will contain full information regarding the proposed transaction.

DIVIDENDS

RECORD DATE	AMOUNT	PAID
March 18, 1964	$.35	March 31, 1964
June 17, 1964	$.35	June 30, 1964
September 16, 1964	$.35	September 30, 1964
December 17, 1964	$.35	December 31, 1964

CORPORATE HIGHLIGHTS FOR 1964

- The Company achieved the highest sales and earnings in its history.
- Diet Pepsi-Cola was introduced in the spring; by year's end it had been made available to approximately 95 per cent of the population of the United States.
- The Company in September acquired The Tip Corporation of America, producers of Mountain Dew, whose rapidly rising sales showed high future promise.
- An exciting new advertising campaign, introduced in early fall, struck the markets with high impact.
- The Shopping Spree, greatest national promotion ever conducted by American business, drew over 61 million entries.
- A new approach to selling chain accounts opened significant new opportunity.
- A new enthusiasm of Bottlers brought important increases of their investment in the business; for example, stimulated in part by our new lease plan and incentive plan, they ordered 50 per cent more vending machines than in any previous year.
- The Pepsi-Cola exhibit at the World's Fair outdrew every other paid exhibit by far.
- Pepsi-Cola Metropolitan Bottling Company, Inc., embarked on an aggressive marketing program and a substantial program of building and modernizing facilities.
- Sales of Company products in convenience packages and in fountain outlets rose sharply.
- Overseas operations continued to grow with 26 new plants opened in 14 countries, five of them in Japan alone.
- The Company acquired property for construction of a new concentrate producing plant between Dallas and Fort Worth, Texas.
- Empire State Sugar Company, Inc., was organized as a new subsidiary of Pepsi-Cola Company, and began construction of its beet-cane sugar refinery in Montezuma, New York.

TEN-YEAR COMPARISON Pepsi-Cola Company and Consolidated Subsidiaries

Financial Results

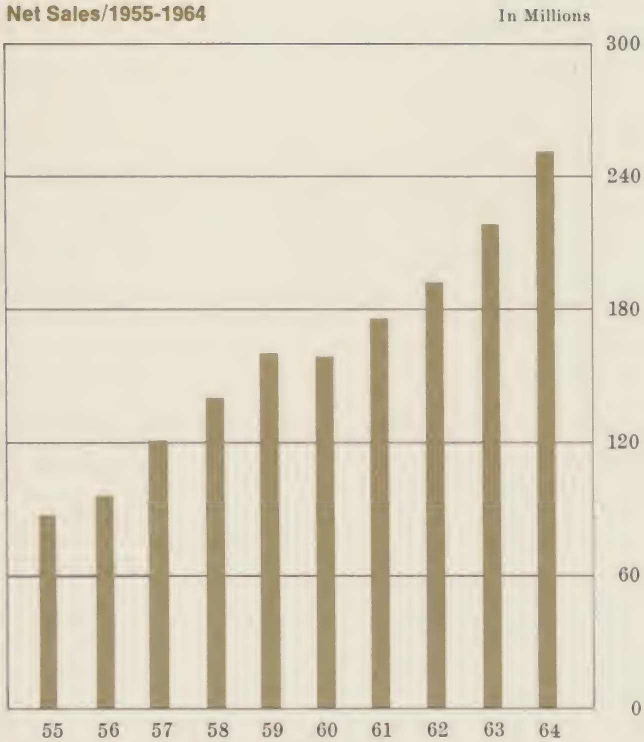
	Net Sales	Net Income	Earnings Per Share	Dividends	Dividends Per Share	Shares Outstanding
1964	$252,543,792	$18,577,017	$2.80	$9,235,697	$1.40	6,634,780
1963	218,539,715	16,145,500	2.46	9,153,865	1.40	6,556,735
1962	191,630,223	15,412,389	2.36	9,123,142	1.40	6,522,905
1961	173,854,426	14,368,035	2.21	9,109,755	1.40	6,509,055
1960	157,672,258	14,180,705	2.18	9,052,690	1.40	6,495,955
1959	157,769,109	13,873,843	2.17	7,833,818	1.25	6,384,415
1958	136,819,847	11,547,954	1.88	7,238,496	1.20	6,138,755
1957	120,330,773	9,559,675	1.61	6,220,528	1.05	5,926,205
1956	97,035,805	8,884,787	1.50	5,915,830	1.00	5,918,655
1955	88,970,600	9,456,766	1.60	5,897,090	1.00	5,909,005

Financial Position

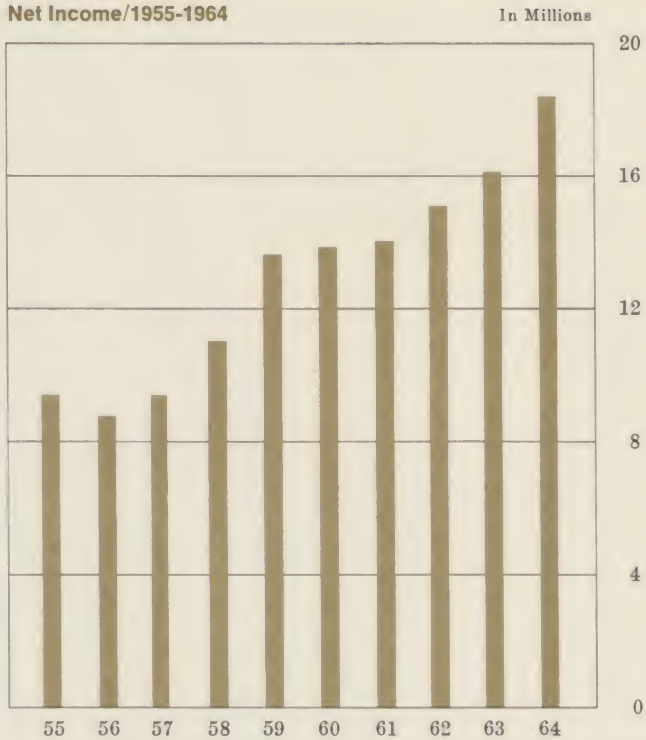
	Current Assets	Current Liabilities	Working Capital	Fixed Assets —Net	Other Assets	Long Term Indebtedness and Customers' Deposits	Reserve for Foreign Activities	Stockholders' Equity	Book Value Per Share
1964	$86,459,096	$43,777,987	$42,681,109	$60,181,512	$18,287,910	$21,866,235	$2,493,318	$96,790,978*	$14.59
1963	77,970,497	36,509,332	41,461,165	53,810,086	17,374,402	22,519,071	3,147,603	86,978,979*	13.27
1962	67,225,677	29,103,619	38,122,058	51,109,149	15,885,887	23,056,301	2,963,354	79,097,439*	12.13
1961	70,665,032	26,279,229	44,385,803	42,818,073	13,595,870	24,578,536	4,098,870	72,122,340*	11.08
1960	63,176,165	19,031,454	44,144,711	39,770,876	11,315,498	24,912,379	4,143,172	66,175,534*	10.19
1959	58,681,888	23,430,599	35,251,289	37,742,852	12,712,000	22,516,154	4,595,467	58,594,520*	9.18
1958	36,252,272	19,019,387	17,232,885	34,049,468	13,637,942	12,804,641	3,104,950	49,010,704*	7.98
1957	33,748,837	19,396,554	14,352,283	31,839,309	11,777,999	12,394,706		45,574,885	7.69
1956	32,018,582	14,566,258	17,452,324	24,323,023	6,390,925	6,002,051		42,164,221	7.12
1955	32,803,026	14,300,372	18,502,654	20,103,341	5,180,719	4,692,600		39,094,114	6.62

*After reduction attributable to Reserve for Foreign Activities

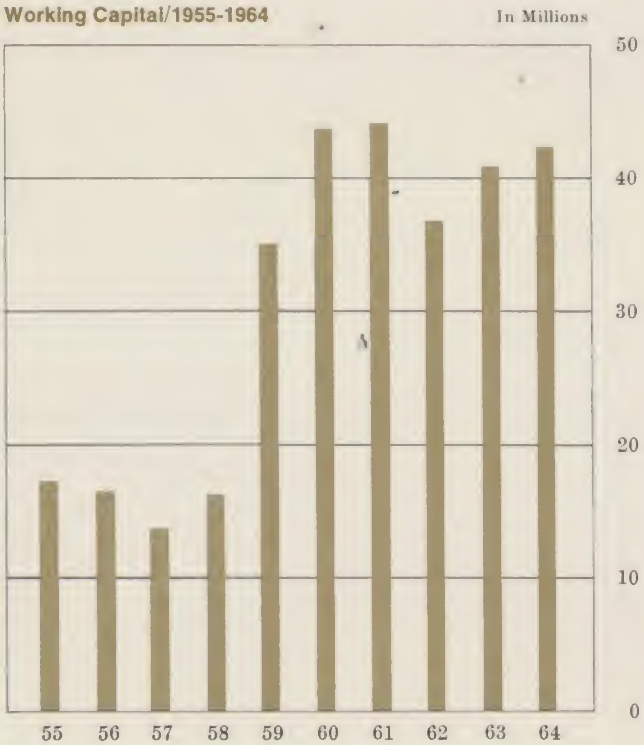
Net Sales/1955-1964



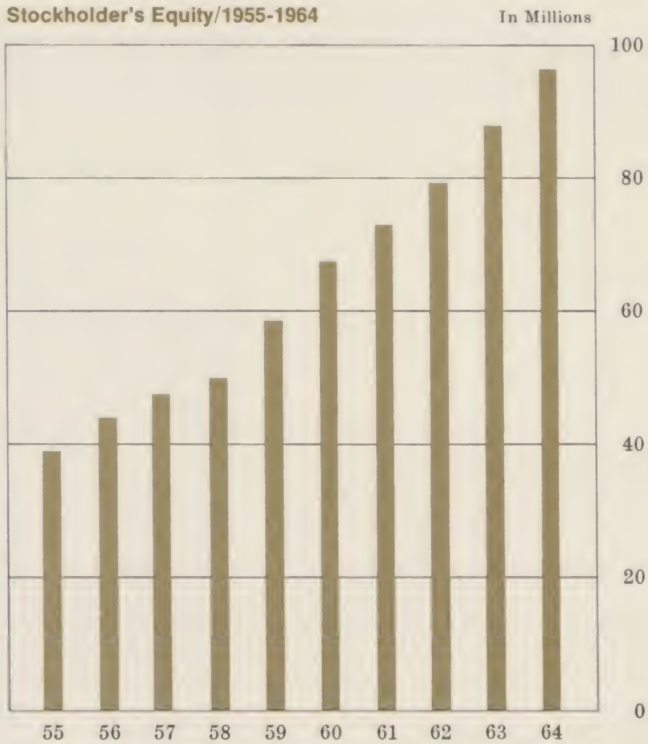
Net Income/1955-1964



Working Capital/1955-1964



Stockholder's Equity/1955-1964




PEPSI
NEW DIET PEPSI
6 49¢
SUGAR FREE

SALES AND SALES ACTIVITIES

The Record, The Trend

Total case and dollar sales, both at home and abroad, rose to the highest volume in our history. During the final four months of the year the rate of gain sharply accelerated.

The annual rate basis of sales established during the final quarter of the year and with which we entered 1965 was the highest in our history, far ahead of that for preceding quarters.

Of great future significance was the launching of a wide range of new programs still young at year's end and climbing to their full power in the months ahead. New products, new advertising campaigns, however forcefully introduced or well received, reach full impact on a mass public only after months of continuing growth. The same is true of each program of change affecting expansion to a mass international public. This Report, therefore, records not only the record-breaking sales and earnings of 1964 but also the new programs first introduced in 1964 and still growing to full force.

New Products

Notable among the year's developments was the introduction of Diet Pepsi-Cola, the only diet cola drink ever given the treasured name of a major American company's principal product, and the acquisition and rapid expansion of Mountain Dew. Complementing each other, they provide for differing taste preferences.

Diet Pepsi

Recognizing the growing strength of dietetic products (currently 11 per cent of total soft drink sales), the Company had entered the dietetic cola field in 1963 with Patio Diet Cola, which by the end of 1963, in those plants which sold it, was accounting for approximately 6 per cent of sales; continuing research,

Route Salesman delivers Diet Pepsi-Cola to an outlet in Louisville, one of first cities to introduce the new product.


DIET

however, indicated that substantially greater returns would evolve from a product with the taste of regular Pepsi-Cola, bearing the Company's major trademark. Accordingly, such a formula was developed, and the product named Diet Pepsi-Cola. The advantages in advertising, promoting, and selling one brand name in two versions of a single product are many; creating an identity for Diet Pepsi-Cola, for example, does not require the millions of dollars necessary to establish a new name.

The first market tests, conducted in the spring, were so overwhelmingly encouraging that management decided to proceed at once with nation-wide introduction.

By year's end, Diet Pepsi-Cola was available to approximately 95 per cent of the American population, though to none for more than a few months, and was producing substantially better sales results than its predecessor (currently about double). The Company began realizing profit from the new product during its first year on the market.

Mountain Dew

Mountain Dew had been introduced locally by a Pepsi Bottler in the South and had achieved a limited regional distribution, lightly supported by a purposely unsophisticated advertising approach built on the slogan, *It Tickles Yore Innards.*

The Company purchased The Tip Corporation of America, producers of Mountain Dew, in September, 1964, and began to expand the development of Mountain Dew. It further decided to retain the novel sales approach, and promptly began additional franchising to enlarge distribution. By the end of the year, 196 franchise appointments had been approved, and

Case after case of new Diet Pepsi-Cola moved along the bottling lines to join regular Pepsi-Cola in the nation's vendors and stores. Later in the year came new excitement with the spread of Mountain Dew.


come alive!
You're in the
Pepsi generation!

Mountain Dew was actually in production and on sale in 131 franchises.

Its sharply rising sales are becoming the excitement of the industry. In plant after plant, in only a few short weeks, with minimum effort, it soared with startling rapidity. Its popularity proved wide and immediate, even in larger urban markets. The plans and promotion put behind the expansion of Mountain Dew's distribution were already returning rewards by year's end.

Marketing Services

Advertising

The Company launched a new advertising compaign with a new theme and heavily increased its investment in this major selling force.

In September the power of the new campaign struck the country with the heaviest exposure in our history, selling two products—Pepsi-Cola and Diet Pepsi-Cola—under a single copy line: *Come Alive! You're in the Pepsi Generation.* With a new generation of young people born since the war, their product preferences still flexible, and with many millions of new people entering the world's markets every year, this is a commanding campaign to motivate the highest per capita and biggest volume consumers by awakening them to a new reality.

Come Alive! was introduced to 60 million Americans on a special two-minute spot at the climax of the Miss America telecast on September 12; that same week millions more saw the print version in leading magazines. During the next four months TV coverage alone was increased 85 per cent, a heavy schedule of radio spots achieved recognition levels exceeding even those of the prior theme, and 26 full-page, full-color insertions appeared in *Life, Look, Saturday*

At a meeting of all the nation's Pepsi Bottlers held at New York's Waldorf-Astoria Hotel last September, Marketing Services VP Alan Pottasch (opposite page) introduced the dramatic new Come Alive! advertising campaign. At left, stills from the TV film commercials.


Teem
PEPSI

Evening Post, Ebony, Seventeen, and various special magazines.

Overseas, the copy line was simplified to *Come Alive with Pepsi,* and illustrated with sports and recreational scenes to emphasize the image of a product for active, youthful-minded people. Television and theatre films carried the new campaign, and on overseas radio the new Come Alive! musical theme largely replaced the old "hits the spot" music of years ago in America.

Supplementing this national program, the Company made available to Bottlers a collection of campaigns to meet special local situations—the "War Library."

The impact of the new campaign, already being felt on sales, should continue to increase sharply for months to come.

Promotions

The 1964 Pepsi-Cola $1,850,000 Shopping Spree drew the largest consumer participation ever recorded by the businesses of the world—61,140,082 entries—and produced immediate, measurable sales increases for the 520 Bottlers who participated. The newsworthy nature of the promotion, in which winners were allowed to keep all the food items they could gather in their favorite store within an allotted time, brought enormous additional publicity, including a feature article in the February 1965 issue of *Esquire*. More than 2,000 local "sprees" drew crowds of onlookers and further extended Pepsi's influence in food outlets by exciting and rewarding dealers as well as contestants.

An expanded version of this great success and another type of national promotion with similar objectives are planned for 1965.

The Company provided Bottlers a selection of some 50 local promotions contained in a Promotion War Book.

The grand-prize Shopping Spree in Taylorville, Ill., won Pepsi widespread press, television, and newsreel coverage—and, eventually, a feature story in Esquire magazine. Far left: branded cork liners of crowns on all Company products will be used to enter future national and local promotions. At left: the Company's hospitality booth at the National Restaurant Association's annual convention—where valuable sales contacts were made with buyers for important outlet chains.

Sales Training

The Company vigorously increased its aid to Bottlers in training sales employees of bottling plants at many levels, conducted schools in every section of the country, and created materials for in-plant training sessions. This greatly enlarged and intensified program met enthusiastic response from Bottlers and the hundreds of men who benefited.

Selling National Accounts

In November the Company achieved a major breakthrough to vast new volume by a new method of selling the nation's multiple-outlet chains, solving for the first time many of the complications which have always existed because of the overlapping and nonidentical distribution boundaries of Pepsi Bottlers and these various chains, and simplifying problems of billing and service.

Another intensive program utilizing an expanded field staff, new sales materials, and special promotions supported a harder drive against the high-volume supermarket chains, which account for 16 per cent of all carbonated beverage sales with only 7.5 per cent of total food outlets. One goal is increasing Pepsi representation in these outlets to match changing patterns of consumer preference (for example, diet drinks now constitute 11 per cent of soft drink sales, convenience containers 9 per cent).

The Company additionally launched a series of effective new programs to increase vending and case sales in the "mobile market" (service stations, marinas, parking lots, trailer camps, etc.), and devoted new special efforts toward other chain accounts (theatres, variety stores, military installations, etc.).

All these expanded efforts and the Company's new equipment leasing program indicate high growth potential in the nation's high-volume chain outlets.

Equipment

Under the stimulus of special incentives, Pepsi-Cola Bottlers dramatically increased their investment in sales equipment. Purchases and leases of vending


PEPSI


PEPSI
PEPSI-COLA


Convenient!
NO RETURN
PEPSI
12 OZ SIZE


Pepsi

machines—the primary instrument for distribution of cold bottles—exceeded those of 1963 by some 50 per cent; going into outlets during 1964 and early 1965 these promise notable increases in cold-bottle sales.

To encourage this rapid growth the Company offered to Bottlers a special incentive plan which reduced the unit cost of machines purchased. In addition, in September we announced the formation of a leasing company, Pepsi-Cola Equipment Corp., to provide Bottlers with vending machines and fountain dispensers at attractive rates and terms which permit putting into outlets some two-thirds more equipment than heretofore with the same cash requirements.

In less than four months after the announcement, the Company had arranged the leasing of nearly five million dollars' worth of such equipment to Pepsi Bottlers. Placed in outlets without additional outlay of capital, these machines increase sales and income for both Bottler and Company.

Pepsi-Cola Equipment Corp. plans for the future to extend its leasing operations to include automobiles, trucks, machinery, and other tools of the business.

Selling to Fountain Outlets

The Company took three major steps to increase sales in fountain outlets: it (1) organized a special sales force for this purpose, (2) developed a program under which Bottlers for the first time can prepare fountain syrup and sell it to retail outlets in either five-gallon steel containers (transfer tanks) or one-gallon glass jugs, and (3) initiated an equipment incentive plan for Bottlers.

During the year, 239 Bottlers installed transfer tank syrup production facilities, and 120 participated in the jugging program.

The potential growth in this market segment is large, and the effect of these programs greatly strengthens the competitive position of the Pepsi-Cola Bottler.

Selling in "Convenience" Packages

Pepsi-Cola Company mounted a strong effort in "convenience packaging," especially emphasizing the non-returnable bottle. The percentage of soft drink sales in "convenience packages"—no-deposit, non-returnable bottles and cans—continues to rise; we expect substantial increases from this effort in 1965.

In a three-months test of non-returnable bottles in several cities of Michigan in 1964, we saw take-home sales rise 17 per cent, a saving in bottle-sorting costs, the elimination of bottle loss, additional cash flow, and a ready acceptance by dealers. Such packaging is economically sound, requires no additional plant machinery, fits the franchise system, and meets a growing public preference.

Sales in cans rose 41 per cent in 1964; over 40 Bottlers began selling cans, bringing to 350 the number now doing so; and higher percentages of sales increase should result in 1965.

The Company is working to perfect new and improved self-opening devices for both cans and non-returnable bottles, is conducting tests of aluminum cans, and is planning installations of new, high-speed canning lines.

Teem and Patio

TEEM, Pepsi-Cola Company's lemon-lime flavored soft drink first introduced in 1959, is now in the outlets of 339 Bottlers serving 70 per cent of the American population. Consumer purchases of lemon-lime drinks showed no appreciable change during the past year.

Results of a test in two markets should encourage Bottlers in the United States to produce Sugar-Free TEEM, which apparently creates "plus" business without detracting appreciably from sales of regular TEEM. Advertising campaigns have been created for both versions of TEEM.

Patio flavors (some 12 formulations are currently available) are now produced by 132 Bottlers. Sales as a whole are ahead of last year's by about a third.

The Company informed Bottlers of its intent to supply them with any flavors they required.

More vending machines, new ways of increasing fountain sales, improved convenience packages all helped build Pepsi's most successful selling year.


PEPSI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COMPANY-OWNED PLANTS

Pepsi-Cola Metropolitan Bottling Company, Inc., launched aggressive new marketing programs in its 18 owned or supervised bottling facilities (one plant each in Phoenix, Las Vegas, Milwaukee, St. Louis, Grand Rapids, Boston, Memphis, and Pittsburgh; two plants in Detroit; two in Philadelphia; three plants in North Jersey and three plants in New York City). These localities embrace approximately 16 per cent of the U.S. population.

During 1964, all plants adopted standardized marketing plans with emphasis on increased distribution and availability, route development, sales training, and a strong fountain syrup program. The results are most gratifying. Increased production efficiencies and more effective marketing are anticipated from plant-by-plant audits in depth of personnel, production, marketing, and finance.

During the past year, plant facilities were expanded or replaced in Las Vegas and Milwaukee; additional sales, advertising, and vending facilities were added to the St. Louis operation. Comprehensive plans are under way for the development of new facilities in Michigan; a new plant in Flint and a new warehouse in Pontiac are already under construction.

The total investment made during 1964 and planned for 1965 in physical facilities—plants, warehouses, production equipment, trucks—significantly exceeds that of any comparable past period.

All of these programs and plans should give substantial improvement to sales and income in these key markets.

FOREIGN OPERATIONS

Overseas operations have become an increasingly important contributor to the over-all strength of Pepsi-Cola. Foreign sales account for more than one-third of consolidated sales.

Overseas, million-case Bottlers are now one out of four and the percentage of such plants is rising. Increased volume will continue not only from the product's introduction into more countries and more areas therein (it is presently sold in 106 nations and territories outside the United States), but from growth in existing markets through increased per capita consumption, marketing programs, increased consumer income, and wider ownership of refrigeration equipment to make possible greater take-home sales.

During the year, 26 new plants in 14 countries went into operation: Brasilia, Brazil; Galway and Newcastle West, Ireland; Pescara and Catania, Italy; Fukuoka, Fukushima, Hiroshima, Maebashi and Tokyo, Japan; Benghazi, Libya; Campeche and Perote, Mexico; Karachi, Pakistan; Muret (Haute Garonne) and Genay (Ain), France; De Aar and Pretoria, South Africa; Mar del Plata, Cipolletti, and Trelew, Argentina; Davao and Muntinglupa, the Philippines; Papeete, Tahiti; Mwanza, Tanganyika (now Tanzania); and Istanbul, Turkey. The operations in Tahiti and Turkey are the first for Pepsi-Cola in those countries.

Latin America

Our sales in Latin America are abetted by an exploding population, a growing middle class, and a growth in discretionary incomes. For 1965, 10 new plants are planned to open in Brazil alone, six more in Argentina, and two in Bolivia. A new bottling line will be added to meet the rapid growth in Buenos Aires.

In Latin America as in the United States, buying patterns change; in Buenos Aires, for instance, almost 50 per cent of Pepsi volume is in the 26-ounce family size. Counter dispensers made their first appearance in Argentina in 1964, offering postmix Pepsi-Cola and two flavors.

The Company's Mirinda flavor line was introduced into Uruguay in July 1964, and sales rose dramatically. In 1965, Mirinda Orange will go into the Brazilian market; by the end of year, all 22 plants in that country will offer the full flavor line.

Promotional activities such as a crown promotion in Buenos Aires; an Olympic figurine promotion in

Top: artist's drawing for new plant under construction in Flint, Michigan. Below: a Pepsi sign dominates the nightscape in modern Hiroshima, Japan.


trink
Pepsi-Cola
BE 123 360


Pepsi-Cola
پیپسی کولا


PEPSI-COLA

Brazil, Argentina, and Chile; and a camera promotion (90,000 redeemed) in Peru played a notable part in raising sales.

Canada

Pepsi-Cola Company of Canada, Ltd., supervising 126 plants, of which eight are Company-owned, announced plans to open expanded plant facilities in London and Kitchener, Ontario; and Victoriaville, Sorel, and Trois Rivières, Quebec.

Europe, Africa, the Middle East

Pepsi-Cola operations in Europe enjoyed dramatic sales growth, France alone recording an increase of 76 per cent. In Germany, as the result of more intensive marketing, sales rose 13 per cent. In Africa and the Middle East sales continued to rise.

In Spain, Pepsi-Cola was first in the market with a half-liter bottle and the first to make its product available in premix form for fountain dispensers. Seven Spanish Bottlers ordered larger bottling equipment to meet increasing demand.

In 1965, Mirinda flavors will be introduced to Italy and Iraq.

The Far East and Pacific Areas

Sales growth throughout the Orient was especially encouraging. Japan provided the greatest upward trend and future promise; in addition to the five new plants which opened in Japan in 1964, four more will open in 1965. Newly trained Japanese Bottlers, supported by substantial capital, by year's end were beginning a zestful attack upon franchises with huge populations and vast potentials.

New package sizes and extensive promotional activity with the Olympic games stimulated growth.

Other areas showing good progress include the Philippines, where Pepsi recorded impressive gains; and Australia, where Pepsi-Cola promoted the major national sport, tennis, particularly through its association with a celebrated professional star, Lew Hoad.

In selected locations throughout the Far Eastern area, new equipment is systematically being ordered and installed; training programs for sales and production personnel have been instituted and expanded.

In 1965, new plants are scheduled to open on Guam Island, in the Philippines, and in Australia, as well as in Japan.

PUBLIC RELATIONS

The Company recorded a widely acclaimed triumph with its exhibit ("It's a Small World"—A Salute to UNICEF) at the New York World's Fair. Walt Disney's animated singing and dancing puppets attracted approximately six million visitors, outdrew every other paid exhibit at the Fair, won rave reviews and world-wide publicity, and reflected great credit upon the Company.

Through the Freedoms Foundation we provided American Heritage kits for all Boy Scouts in the United States.

We again sponsored educational scholarships for state and national winners in the Miss America Pageant; participated in sports with the U.S. Junior Chamber of Commerce, the National Association of Intercollegiate Athletics, and other organizations; sponsored various community development projects; provided hospitality services at national conventions of influential groups; presented crowd-drawing public exhibits in the Company's World Headquarters; and produced printed and filmed materials, including an award-winning Company magazine.

On behalf of the Company outstanding personalities created favorable public excitement, chief among them the internationally acclaimed Pepsi Director Miss Joan Crawford, who energized numberless Company projects. Miss America (Vonda Kay Van Dyke of Arizona) and famed football star

A Pepsi delivery truck passes through a picturesque square in Berne, Switzerland. Below, left: a modern Pepsi plant serves Cairo, Egypt. At right: Bottler Katsuhiko Kawashima cuts ribbon opening new Pepsi plant in Hiroshima. Assisting him are Richard M. Nixon, senior partner in the law firm which is outside counsel to the Company's International Division, and Pepsi-Cola President Donald M. Kendall.


PEPSI-COLA
presents
WALT DISNEY'S
UNICEF

Jimmy Brown appeared frequently on behalf of the Company and individual Bottlers. Toward the end of the year, the Company engaged the outstanding football coach, Ara Parseghian of Notre Dame, to make a limited number of appearances for Pepsi-Cola during off-season months.

Community relations activities overseas, frequently in support of the International Junior Chamber of Commerce, won high approval and prestige.

RESEARCH AND PLANNING

Pepsi-Cola Company believes simply that the consumer is king. What does the consumer want? In what kind of package? What flavor? In what places? Today? Tomorrow?

On the answers to these and other questions successful sales and promotional programs depend. Your company in 1964 vigorously intensified its market research facilities with new manpower, more money, greater authority. In addition, under the direction of one of the ablest and most experienced marketing men in American business it activated a planning group freed of routine responsibilities and gave it the mission of researching, exploring, observing, interpreting, suggesting and planning—in short, *thinking*.

These forces conduct a comprehensive, highly organized and continuing program of consumer and retailer research which forms the basis of our market development programs.

Diet Pepsi and the investment in Mountain Dew were direct results of such research. New products

Opposite: Pepsi's World's Fair pavilion was a stand-out attraction. Left: the crowning of Miss America again climaxed a year-round, nation-wide Pepsi-sponsored scholarship program.


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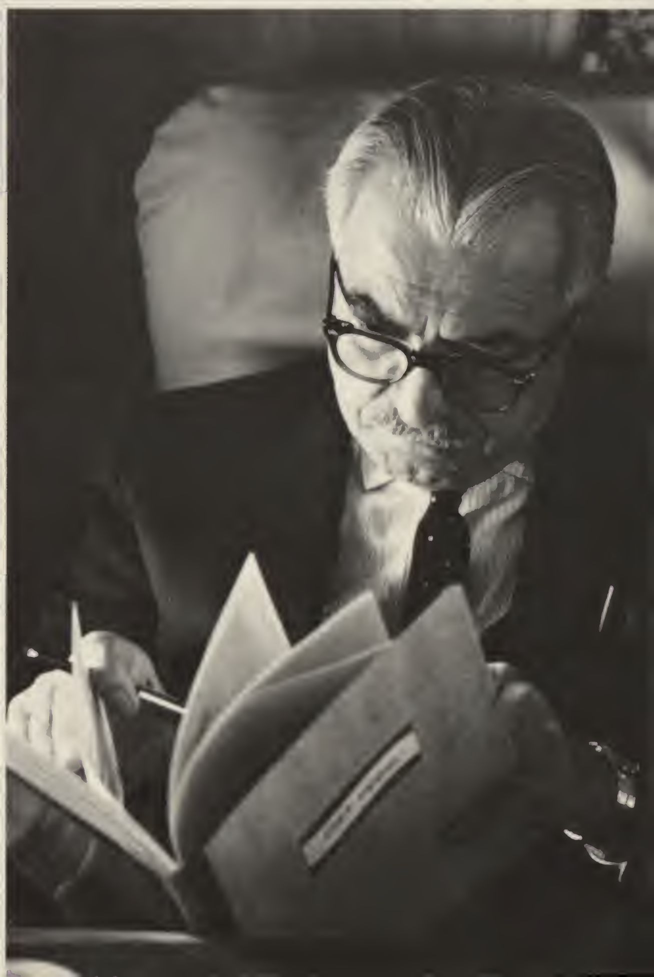

are now under study. The Company is actively engaged in examining potential diversification situations.

At a Bottler's request we make periodic audits of his status in total market development, and based on these audits we make marketing plans with each such Bottler in his franchise. We also draw on the best available outside audits, such as those of A. C. Nielsen Company.

Such studies form the basis also for long-term planning. Should your Company produce new products, and if so, what? What new technological methods, changes in distribution systems offer us opportunity? How shall we diversify in the most logical areas?

Few companies know as much about what happens to their products as Pepsi-Cola Company. Our forward planning is much farther advanced than at any previous time. This is sound practice for today, good insurance for tomorrow.

TECHNICAL SERVICES

Your Company's new management believes strongly in the utilization of technological advances. It added manpower and enlarged responsibility to its Technical Services division, placing under its direction engineering, quality control, packaging, plant design and development, purchasing, and sales equipment engineering to serve both Company and Bottler.

Redesigned traveling laboratories and additional technicians were added to the field force, and others readied for domestic and overseas operations.

Automation of syrup mixing equipment and water treating systems has already been introduced into several plants; now under study is automation of case handling.

Computer facilities process the masses of research data gathered on Pepsi's markets. Far left: a chemist in one of Pepsi's Traveling Laboratories checks product quality with refractometer. Left: Planning VP John Toigo studies notes en route to field meeting prior to Diet Pepsi's introduction.

MANUFACTURING

The Company announced acquisition of a 15.1-acre site at Arlington (between Dallas and Fort Worth), Texas, for the erection in 1965 of a new concentrate producing plant to serve nearly 100 Bottlers in the Southwestern United States. This will bring to 25 the total of concentrate plants around the world.

Design work was started for a manufacturing facility in Montezuma, New York, adjacent to the new sugar refinery being built there. This operation will furnish upstate New York Bottlers with bulk bottling syrup.

In addition to Sugar Free TEEM, other new beverage flavors were developed during the year to meet the requirements of certain Bottlers. With the acquisition of Mountain Dew, all domestic manufacturing sources prepared to produce its concentrate as well.

The Manufacturing Department, in conjunction with the Company's Research Department, has continued tests of various new container materials for concentrate, syrup and finished products.

Overseas, the Company established a manufacturing subsidiary in Turkey and launched Pepsi-Cola there with locally prepared concentrate; Pepsi-Cola (Japan) Ltd. moved into a new concentrate plant; and additional equipment was installed at the Porto Alegre, Brazil, plant.

SUGAR

During 1964, the Company announced the formation of a new subsidiary, Empire State Sugar Company, Inc., to conduct operations at a $23.5 million refinery complex now under construction in Montezuma, New York.

It will be the only plant in the United States which both processes the beet crop and refines cane sugar, and will be in operation by October 1, 1965.

PERSONNEL

As of the end of the year the Company had 9,523 employees, of whom 4,566 were in domestic operations and the remainder overseas. Of these, 230 had been with the Company in excess of 25 years. During

the year 19 employees retired, bringing to 259 the number now receiving pension benefits.

The Company continued its college recruitment and training programs, and for 12 visiting Japanese bottling plant executives held a special management training program in the plants of six U.S. cities.

Management appointments announced during the year included those of Peter J. De Luca to Vice President and Counsel; Samuel H. Desch to Vice President and General Manager of the International Division; Charles C. Davis, Jr., to Vice President in Charge of Franchise Development and Chairman of the Board of Directors of The Tip Corporation of America; William Jones to President of The Tip Corporation of America; Frederick C. Sorensen to Vice President and General Manager of The Tip Corporation; and Rob J. Taylor to Administrative Vice President of Pepsi-Cola Metropolitan Bottling Company, Inc.

ACCOUNTANTS' OPINION

HASKINS & SELLS

Certified Public Accountants — *Two Broadway, New York 10004*

The Directors and Stockholders of
Pepsi-Cola Company:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1964 and the related statements of consolidated income and consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated income and consolidated surplus present fairly the financial position of the companies at December 31, 1964 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied in all material respects on a basis consistent with that of the preceding year.

March 9, 1965 — Haskins & Sells

CONSOLIDATED BALANCE SHEET *December 31, 1964 and 1963*

Pepsi-Cola Company and Consolidated Subsidiaries

Assets	1964	1963
Current Assets:		
Cash (including time deposits—1964, $28,351,000; 1963, $25,732,000)	$ 44,398,737	$ 43,515,804
Notes and accounts receivable (less allowance for doubtful receivables—1964, $1,599,924; 1963, $1,234,921)	20,993,329	14,607,153
Inventories—at cost, not in excess of market:		
Finished, in-process, raw materials and supplies	19,080,690	18,025,990
Vending equipment held for resale	1,986,340	1,821,550
Total current assets	86,459,096	77,970,497
Miscellaneous Assets:		
Notes and accounts receivable—not current	6,465,131	6,745,707
Investment in and advances to affiliates	345,110	838,162
Other	957,440	549,643
Total miscellaneous assets	7,767,681	8,133,512
Property, Plant and Equipment:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1964, $42,908,143; 1963, $37,394,724)	44,861,385	39,584,092
Bottles and cases on hand and with trade (principally at estimated depreciated values)	15,320,127	14,225,994
Total property, plant and equipment—net	60,181,512	53,810,086
Deferred Charges:		
Prepaid insurance, taxes, etc.	1,727,353	1,291,006
Advertising materials and expenses	2,771,420	2,488,897
Other	3,594,696	2,558,445
Total deferred charges	8,093,469	6,338,348
Trademarks, Formulas and Goodwill (less amortization)	2,426,760	2,902,542
Total	$164,928,518	$149,154,985

Reference is made to the accompanying Notes to Financial Statements

CONSOLIDATED BALANCE SHEET *December 31, 1964 and 1963*

Pepsi-Cola Company and Consolidated Subsidiaries

Liabilities	**1964**	**1963**
Current Liabilities:		
Notes payable (including current installments on long-term indebtedness)	$ 6,231,290	$ 3,817,399
Accounts payable and accrued	20,356,640	18,302,769
Accrued taxes:		
United States and foreign income taxes	14,106,402	11,280,655
Other taxes	3,083,655	3,108,509
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	43,777,987	36,509,332
Other Liabilities:		
Long-term indebtedness (current installments included above):		
5¼% notes (payable in annual installments of $1,250,000 to 1973; the balance payable in 1974)	13,750,000	15,000,000
Other	382,347	537,140
Customers' deposits on bottles and cases	7,733,888	6,981,931
Total other liabilities	21,866,235	22,519,071
Reserve for Foreign Activities	2,493,318	3,147,603
Capital Stock and Surplus:		
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding at December 31, 1964, 6,634,780 shares	2,211,593	2,185,578
Capital surplus	12,623,175	12,275,894
Earned surplus	81,956,210	72,517,507
Total capital stock and surplus	96,790,978	86,978,979
Total	$164,928,518	$149,154,985

Reference is made to the accompanying Notes to Financial Statements

CONSOLIDATED INCOME *for the years ended December 31, 1964 and 1963*

Pepsi-Cola Company and Consolidated Subsidiaries

	1964	1963
Net Sales	$252,543,792	$218,539,715
Cost of Sales	76,183,566	67,598,938
Gross Profit on Sales	176,360,226	150,940,777
Advertising, Selling, Shipping, General and Administrative Expenses	141,382,496	117,176,267
Profit from Operations	34,977,730	33,764,510
Other Income	1,869,802	2,924,688
Total Income	36,847,532	36,689,198
Income Charges:		
Interest on indebtedness	1,061,030	1,141,215
Losses arising from devaluation of foreign currencies	406,400	335,559
Other	1,292,841	769,795
Total	2,760,271	2,246,569
Income Before Income Taxes	34,087,261	34,442,629
Provisions for United States and Foreign Income Taxes:		
United States	9,500,000	12,570,000
Foreign	6,830,000	5,650,000
Total	16,330,000	18,220,000
Income After Provisions for Income Taxes	17,757,261	16,222,629
Adjustment for Foreign Activities	819,756	(77,129)
Net Income	$ 18,577,017	$ 16,145,500

Reference is made to the accompanying Notes to Financial Statements

CONSOLIDATED SURPLUS *for the year ended December 31, 1964*

Pepsi-Cola Company and Consolidated Subsidiaries

Earned Surplus

Balance, January 1, 1964	$72,517,507
Balance (deficit), January 1, 1964 of The Tip Corporation of America	(63,321)
Transfer from capital surplus arising from inclusion of British subsidiary in consolidation	335,575
Net income for the year	18,577,017
Total	91,366,778
Less:	
Dividends paid—cash:	
Pepsi-Cola Company ($1.40 a share)	9,235,697
The Tip Corporation of America before pooling of interests	9,400
Transferred to Reserve for Foreign Activities	165,471
Total	9,410,568
Balance, December 31, 1964	$81,956,210

Capital Surplus

Balance, January 1, 1964	$12,275,894
Balance, January 1, 1964 of The Tip Corporation of America	65,484
Excess of the stated value of outstanding capital stock of The Tip Corporation of America over the par value of 60,000 shares of Pepsi-Cola capital stock issued in exchange	50,200
Excess of proceeds over par value of 18,045 shares of capital stock issued under stock option plans	585,178
Total	12,976,756
Less:	
Expenses in connection with pooling of interests	18,006
Transfer to earned surplus arising from inclusion of British subsidiary in consolidation	335,575
Total	353,581
Balance, December 31, 1964	$12,623,175

Reference is made to the accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS *December 31, 1964* Pepsi-Cola Company and Consolidated Subsidiaries

1. The consolidated financial statements for 1964 include the accounts of all active subsidiaries except Pepsi-Cola Equipment Corp. which commenced operations late in 1964 as a lessor of vending and other equipment.

At December 31, 1964, Pepsi-Cola Equipment Corp. had entered into leases with franchised Bottlers for equipment having an aggregate cost of $5,000,000, had incurred loans of $1,900,000 guaranteed by the Company, and had incurred other obligations of $3,000,000.

During 1964, The Tip Corporation of America was combined with Pepsi-Cola Company, such combination being a pooling of interests.

The accounts of the British subsidiary, which had been excluded since 1950, were again consolidated as of January 1, 1964.

The consolidated financial statements for 1963 were not restated to include the accounts of Tip or of the British subsidiary because their inclusion would have no significant effect on such statements.

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

The net current assets, total assets and total liabilities of consolidated foreign subsidiaries and branches (other than Canadian subsidiaries), stated in terms of United States dollars, were $1,000,000, $42,700,000 and $17,200,000, respectively, at December 31, 1964.

2. It is the policy of the Company to exclude from consolidated net income and consolidated earned surplus the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities. The Reserve is available to absorb extraordinary losses that arise from foreign operations such as the effect of devaluations of foreign currencies and unsettled political conditions preventing normal commercial operations. Earnings of foreign subsidiaries, less applicable charges for amortization of goodwill, have been credited to the Reserve. Amounts equivalent to dividends remitted by foreign subsidiaries have been transferred from the Reserve to income.

3. The provisions for depreciation and amortization amounted to $6,600,000 in 1964 and to $6,150,000 in 1963.

4. As a result of a change in the Internal Revenue Code, the investment credit for 1964 was applied as a reduction of the provision for Federal income tax. Prior years' investment credits were deferred and will continue to be taken into income over the estimated lives of the related property. The credits for the prior years and for 1964 were not material in amount.

5. The Company has entered into an agreement for the design, construction and equipping of a beet and cane sugar refinery in Cayuga County, New York. It is estimated that the refinery will be completed in September 1965 at a total cost of $23,500,000.

6. The loan agreements relating to the 5¼% notes payable contain various restrictions including provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital stock. Of the consolidated earned surplus at December 31, 1964, $22,000,000 was free of restrictions.

7. At January 1, 1964, under Stock Option Plans of 1955 and 1959, which were approved by the stockholders in 1956 and 1960, respectively, there were outstanding options to purchase 186,720 shares of the Company's capital stock and 6,750 shares were reserved for the granting of additional options. On June 25, 1964 the Board of Directors adopted, subject to the approval of stockholders, another Plan under which 200,000 shares were made available for options. During 1964 options for 97,750 shares (including options for 83,750 shares under the 1964 Plan) were granted for an aggregate option price of $5,471,750, options for 18,045 shares were exercised for an aggregate option price of $591,193, and options for 17,700 shares with an aggregate option price of $835,775 were cancelled, 7,250 of which became available for grant. At December 31, 1964 options were outstanding with respect to 248,725 shares having an aggregate option price of $12,140,472 and 116,250 shares were reserved for the granting of additional options.

Under the 1955 Plan options are exercisable within five years from the date of grant but no additional options may be granted. Under the 1959 Plan options are cumulatively exercisable to the extent of 40% after three years and an additional 15% after each of the following four years, and expire after eight years, but no additional options may be granted. Options granted under the 1964 Plan must be at 100% of the mean between the highest and lowest market price on the date of grant, are cumulatively exercisable to the extent of 50% after two years and an additional 50% after three years, and expire after five years.

8. The Company and its consolidated subsidiaries are lessees under leases having unexpired terms of more than three years which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is $2,100,000.

9. At December 31, 1964 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to franchised Bottlers, aggregating $4,600,000. Other guarantees by the Company, in addition to those referred to in Note 1, amounted to $600,000.

10. Certain vending equipment acquired by Bottlers is purchased by them on the installment basis and financed by banks; unpaid balances due by Bottlers on such acquisitions amounted to $17,700,000 at December 31, 1964. The companies have agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance.

11. The Company is defendant in an action instituted in the Supreme Court of the State of New York, alleging that the Company induced the Redevlopment Area Organization (Cayuga County) to breach an alleged agreement whereby one of the plaintiffs agreed to plan, finance, construct and operate a sugar-processing facility, subject to the granting of an acreage allotment by the United States Department of Agriculture, and the Redevelopment Area Organization agreed to support said plaintiff in this effort. Damages are claimed in amounts aggregating $12,700,000. The Company is advised that, in the opinion of its counsel, the Company will be successful in the defense of the action, and further that damages claimed are in any event grossly excessive.

12. Reference should be made to page 5 of the Annual Report as to the proposed merger with Frito-Lay, Inc.

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